

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 SS-15 STR-06 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04  
SIL-01 AGRE-00 DOE-11 SOE-02 PA-01 PRS-01 /109 W  
-----052783 190656Z /11

R 190530Z JAN 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 4448  
TREASURY DEPT  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 1 OF 4 TOKYO 874

USEEC

STATE PASS EA FOR HEGINBOTHAM

USOECN ALSO FOR EMBASSY

E.O.11652: GDS  
TAGS: EFIN, ECON, JA  
SUBJECT: JAPANESE ECONOMIC OUTLOOK FOR 1978

1. SUMMARY: THIS MESSAGE PROVIDES EMBASSY'S LATEST JUDGMENT  
ON THE ECONOMIC OUTLOOK FOR THE JAPANESE ECONOMY. FOR CY 1978  
WE EXPECT REAL GROWTH WILL BE APPROXIMATELY 6 PERCENT, INFLA-  
TION WILL RUN AT ABOUT 5 PERCENT, AND THE CURRENT ACCOUNT  
SURPLUS WILL DECLINE TO ROUGHLY \$8 BIL. LITTLE CHANGE IN  
UNEMPLOYMENT IS EXPECTED. WE ARE ACUTELY AWARE THAT THE  
ACTUAL COURSE OF EVENTS THIS YEAR WILL DEPEND HEAVILY ON THE  
DEGREE OF SUCCESS -- OR FAILURE -- THAT THE GOVT EXPERIENCES  
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IN ITS EFFORTS TO BUILD BUSINESS AND CONSUMER CONFIDENCE.  
END SUMMARY.

PRESENT SITUATION:

2. REAL GROWTH IN JAPAN DECELERATED SHARPLY IN THE LAST  
HALF OF CY 1977 AFTER A PERIOD OF RAPID GROWTH IN THE FIRST

HALF. GROWTH IN CY 77 THIRD QUARTER IS NOW ESTIMATED AT 0.5 PCT, AND CY77 FOURTH QUARTER MAY SHOW GROWTH IN THE 1.0 PCT RANGE. THE SLOWDOWN IN REAL GROWTH IN THE SECOND HALF OF 1977 WAS DUE TO WEAK PRIVATE DOMESTIC DEMAND AND A DRYING UP OF THE CONTRIBUTION TO GROWTH THAT HAD BEEN PROVIDED BY THE EXPANSION OF THE NET EXTERNAL BALANCE EARLY IN THE YEAR. PRIVATE CONSUMPTION HAS BEEN PARTICULARLY LISTLESS IN RECENT MONTHS AND PRIVATE INVESTMENT IN PLANT AND EQUIPMENT, WHICH HAD SHOWN SOME SIGNS OF PERKING UP EARLY IN 1977, SLOWED SLIGHTLY THROUGH THE YEAR.

3. THE COMBINATION OF HESITATION IN THE DOMESTIC ECONOMY AND THE J CURVE EFFECTS OF RAPID APPRECIATION OF THE YEN UNDOUBTEDLY LED TO SOME FURTHER WIDENING OF THE ALREADY LARGE CURRENT ACCOUNT SURPLUS IN THE LAST HALF OF 1977 (DECEMBER BALANCE-OF-PAYMENTS FIGURES ARE NOT YET AVAILABLE). IMPORT VOLUME, WHICH HAS BEEN SLUGGISH FOR SOME TIME, DROPPED IN THE THIRD QUARTER AND AT BEST WILL BE ABOUT UNCHANGED IN THE FOURTH QUARTER. WORLD PRICES FOR THE RAW MATERIALS THAT MAKE UP MUCH OF JAPAN'S IMPORTS HAVE BEEN WEAK IN RECENT MONTHS SO THAT THE DOLLAR PRICE OF JAPANESE IMPORTS HAS BEEN FLAT OR FALLING; YEN PRICES OF JAPANESE IMPORTS DROPPED SHARPLY LATE IN THE YEAR AS THE YEN APPRECIATED. ON THE EXPORT SIDE, VOLUME CONTINUED TO GROW IN THE SECOND HALF OF 1977 BUT AT A MORE SUBDUED PACE THAN IN THE PREVIOUS FOUR QUARTERS. IN REACTION TO THE YEN APPRECIATION, THERE HAS

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BEEN A STEADY INCREASE IN THE DOLLAR PRICE OF JAPANESE EXPORTS. VERY ROUGH CALCULATIONS SUGGEST THAT MORE THAN HALF OF THE 18 PCT YEN APPRECIATION IN 1977 HAS BEEN TRANSFERRED INTO HIGHER DOLLAR PRICES AND THE BALANCE ABSORBED IN LOWER YEN PRICES.

4. THE COMBINATION OF A RISING YEN, WEAK AGGREGATE DEMAND AND DECELERATING GROWTH IN THE MONEY SUPPLY HAS SQUEEZED INFLATION SHARPLY. WHOLESALE PRICES HAVE BEEN VIRTUALLY UNCHANGED OVER THE PAST YEAR, AND CONSUMER PRICES WHICH HAVE SHOWN VERY MODERATE INCREASES IN RECENT MONTHS, ARE NOW UP ABOUT 5 PERCENT OVER YEAR-EARLIER LEVELS.

5. THE LAST HALF OF 1977 WAS CHARACTERIZED BY PERVASIVE UNCERTAINTY ABOUT JAPAN'S NEAR-TERM ECONOMIC PROSPECTS. APPRECIATION OF THE YEN WAS A MAJOR FACTOR IN THIS GROWING SENSE OF UNCERTAINTY. THE GOVERNMENT'S CAUTIOUS RESPONSE TO SHIFTING ECONOMIC CIRCUMSTANCES ALSO PROBABLY ADDED FURTHER TO THE TIMID BEHAVIOR OF THE PRIVATE SECTOR IN LATE 1977.

POLICY STANCE:

6. IN REACTION TO INTERNAL AND EXTERNAL DEVELOPMENTS, THE GOVT IN LATE 1977 ANNOUNCED IT WOULD ADOPT AN AGGRESSIVELY EXPANSIONARY FISCAL POLICY BASED ON A MAJOR EXPANSION OF PUBLIC WORKS SPENDING FINANCED BY A LARGE INCREASE IN

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SIL-01 AGRE-00 DOE-11 SOE-02 PA-01 PRS-01 /109 W  
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R 190530Z JAN 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 4449  
TREASURY DEPT  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
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GOVT BORROWING. THE INCREASED PUBLIC SPENDING IS TO BE FRONT-LOADED TO HAVE AS MUCH IMPACT AS EARLY AS POSSIBLE. THE AIM OF THE POLICY SHIFT IS TWOFOLD. THE USUAL SORT OF MULTIPLIER EFFECTS ARE EXPECTED TO FLOW FROM THE INCREASED DEMAND FOR GOODS AT A TIME WHEN PRIVATE INVESTMENT DEMAND IS WEAK. IN ADDITION, THE GOVT HOPES THAT BY SETTING AN EXAMPLE OF VIGOROUS ACTION, THE PRIVATE SECTOR WILL OVERCOME ITS INHIBITIONS AND RESUME SPENDING AT THE HIGHER RATES WHICH APPEAR JUSTIFIABLY ON THE BASIS OF JAPAN'S UNDERLYING GROWTH POTENTIAL. THE OFFICIAL GOJ FORECAST OF 7 PERCENT REAL GROWTH FOR FY 1978 (APRIL 78-MARCH 79) ASSUMES BOTH OBJECTIVES OF GOVT POLICY WILL BE MET.

8. MONETARY POLICY IS EXPECTED TO PLAY A SUPPORTING ROLE IN MEETING THE OFFICIAL OBJECTIVE. INTEREST RATES, NOW CLOSE TO POSTWAR LOWS, MAY BE REDUCED FURTHER IN THE NEAR FUTURE (ALTHOUGH CONFLICTING SIGNALS HAVE BEEN SENT BY THE MONETARY AUTHORITIES SINCE THE LATEST INCREASE IN THE U.S.  
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DISCOUNT RATE). THE MONETARY AGGREGATES, WHICH HAD BEEN GROWING AT A DECELERATING RATE THROUGH THE YEAR ENDING OCT, CAN BE EXPECTED TO INCREASE AT A MORE CONSISTENT RATE (AROUND 10 PCT) IN COMING MONTHS AS THE DEMAND FOR CREDIT, BOTH PRIVATE AND PUBLIC, BEGINS TO PICK UP.

1978 FORECAST:

9. IN CY 1978 EMBASSY EXPECTS REAL GROWTH WILL RUN ABOUT 6 PCT, THE CURRENT ACCOUNT SURPLUS WILL EASE SLIGHTLY TO ABOUT \$8 BIL WITH THE TREND GATHERING MOMENTUM AS THE YEAR CONTINUES. INFLATION WILL CONTINUE UNDER FAIR CONTROL WITH CONSUMER PRICES RISING 5 PERCENT AND WHOLE SALE PRICES RISING ABOUT 3 PERCENT. INDUSTRIAL PRODUCTION IS LIKELY TO RISE ABOUT 5 PERCENT.

10. AS SPELLED OUT FURTHER BELOW, MORE THAN THE USUAL UNCERTAINTIES SURROUND THESE FORECASTS. IN ADDITION TO THE NORMAL ASSUMPTIONS ABOUT MAINTENANCE OF PRESENT POLICIES AND EXCHANGE RATES, EMBASSY'S FORECAST ALSO ASSUMES THAT THE JAPANESE AUTHORITIES WILL ENJOY MODERATE SUCCESS IN "CONFIDENCE" BUILDING -- NEITHER GAINING THE DEGREE OF CONFIDENCE NEEDED FOR A STRONG RECOVERY, NOR SUFFERING THE LOSS OF CONFIDENCE THAT MIGHT COME FROM STRONG INTERNAL OR EXTERNAL SHOCKS OR CRITICISM.

#### FORECAST OF JAPANESE GNP

TRILLION YEN AT

1970 PRICES; PERCENT.

	CY	PERCENT	CY	PERCENT
	1977	CHANGE	1978	CHANGE
PRIVATE CONSUMPTION	53.5	(3 1/4)	56.3	(5)
GOVT CONSUMPTION	8.6	(3 1/4)	9.0	(4)

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#### GROSS DOMESTIC FIXED

CAPITAL FORMATION	32.0	(4 1/2)	34.6	(8)
PRIVATE	21.9	(1 1/4)	7.3	(4 1/2)
DWELLINGS	6.7	(-1 1/4)	7.3	(8)
PLANT & EQUIPMENT	15.2	(2 1/2)	15.6	(2 1/2)
GOVERNMENT	10.1	(12)	11.7	(16)
INVENTORIES	2.0		2.5	
EXTERNAL SURPLUS	6.4		6.1	
GNP	102.5	(5 1/2)	108.5	(6)

BALANCE OF PAYMENTS (\$ BIL)  
CURRENT ACCOUNT (11) (8)  
INFLATION (ANNUAL AVERAGE)  
CPI (8.3) (5)  
WPI (1.9) (2)

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-----052888 190654Z /11

R 190530Z JAN 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 4450  
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C O N F I D E N T I A L SECTION 3 OF 4 TOKYO 874

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11. THE FORECAST OF 5 PERCENT INCREASE IN CONSUMPTION IN  
CY 1978 IS BASED ON THE ASSUMPTION THAT DISPOSABLE INCOMES  
WILL GROW IN LINE WITH NOMINAL GNP AND THERE WILL BE LITTLE  
CHANGE IN THE SHARE OF CONSUMPTION IN GNP. EITHER OF THESE  
ASSUMPTIONS COULD EASILY GO AWRY. THE SPRING WAGE OFFENSIVE  
WILL SET THE TREND FOR WAGE COMPENSATION IN THE COMING YEAR  
AND EARLY INDICATIONS ARE THE OUTCOME COULD BE WAGE RATES  
THAT PERMIT ONLY SMALL INCREASES IN REAL WAGES (ASSUMING  
INFLATION OF 5 PERCENT). EVEN IF PRIVATE PRODUCTION TURNS  
UP, IT APPEARS UNLIKELY THERE WILL BE ANY SIGNIFICANT  
INCREASE IN EMPLOYMENT SINCE WIDESPREAD "OVERMANNING" IS  
NOW REPORTED AS A RESULT OF THE LIFETIME EMPLOYMENT SYSTEM.  
THUS THERE IS A POSSIBILITY THAT RETARDED GROWTH IN NOMINAL  
INCOMES COULD PUT A DAMPER ON CONSUMER SPENDING. ON THE  
OTHER HAND, THERE ARE POSSIBILITIES THAT A MORE STABLE  
ECONOMIC ENVIRONMENT WILL LEAD TO REDUCED SAVINGS RATES AND/OR

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THAT MORE RAPID THAN ANTICIPATED PROGRESS IN CONTAINING INFLATION WILL BOOST REAL CONSUMPTION.

12. BASED ON ANNOUNCED BUDGETARY POLICY, THE FORECAST FOR 4.0 PERCENT GROWTH IN REAL GOVT CONSUMPTION APPEARS FIRM.

13. PRIMARILY ON THE STRENGTH OF GOVT INVESTMENT, GROSS DOMESTIC FIXED CAPITAL FORMATION IS EXPECTED TO RISE ABOUT 8 PERCENT IN 1978. DESPITE SOME WORRIES THAT PUBLIC WORKS SPENDING COULD FALL SHORT OF OFFICIAL TARGETS BECAUSE OF BOTTLENECKS OR DELAYS ON THE PART OF LOCAL AUTHORITIES, WE BELIEVE THE GOVT WILL COME VERY CLOSE TO HITTING THE FORECAST 16 PERCENT REAL GROWTH IN GOVT INVESTMENT.

14. THE ESTIMATE OF 2 1/2 PERCENT GROWTH IN PRIVATE PLANT AND EQUIPMENT IS MORE PROBLEMATIC. AS THE ECONOMIC OUTLOOK GREW MORE CLOUDY LATE IN 1977, SURVEYS OF INVESTMENT INTENTIONS SHOWED FIRMS PLANNED TO HOLD UP ON INVESTMENT PROJECTS. IT IS BY NO MEANS CLEAR WHAT THE ULTIMATE EFFECT OF THIS HESITATION WILL BE. OUR ESTIMATE IS BASED ON STRENGTH OF INVESTMENT IN THE SERVICE SECTOR, THE DISTRIBUTIVE INDUSTRIES, AND ELECTRIC POWER GENERATING OFFSETTING WEAKNESS IN SUCH HEAVY INDUSTRIAL SECTORS AS STEEL, ALUMINUM AND SHIPBUILDING. SOME INDUCED INVESTMENT LATER IN THE YEAR MAY MATERIALIZE AS A RESULT OF THE PUBLIC WORKS SPENDING. IT APPEARS THAT THE AUTO INDUSTRY HAS SCALED BACK ITS INVESTMENT PLANS FOR 1978 AS A RESULT OF THE SHARP APPRECIATION OF THE YEN. IT MIGHT BE NOTED THAT A NUMBER OF OTHER EXPORT DEPENDENT INDUSTRIES WERE ALREADY SUFFERING FROM EXCESS CAPACITY BEFORE THE YEN APPRECIATION, THE HIGH YEN COMPLICATES THEIR PROBLEMS BUT MAY NOT MAKE A GREAT DEAL OF DIFFERENCE IN THEIR INVESTMENT OUTLAYS

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WHICH WOULD HAVE BEEN SOFT IN ANY CASE. ELECTRIC POWER COMPANIES HAVE BENEFITTED BECAUSE OF LARGE FOREIGN EXCHANGE GAINS ON OIL IMPORTS AND THIS EXTRA PROFIT MAY SPEED UP IMPLEMENTATION OF THEIR ALREADY LARGE INVESTMENT PLANS.

15. PROSPECTS FOR HOUSING INVESTMENT ARE THE SUBJECT OF SOME CONTROVERSY IN JAPAN. FISCAL YEAR FORECASTS BY THE GOVT IMPLY ABOUT A 10.0 PERCENT INCREASE IN REAL HOUSING INVESTMENT. MOST PRIVATE FORECASTERS LOOK FOR ABOUT 6

PERCENT. THE GOVT'S REFLATIONARY BUDGET INCLUDES ADDITIONAL  
LOAN PROGRAMS TO FINANCE PRIVATE HOUSING AS WELL AS TAX  
INCENTIVES FOR HOME BUYERS. WHILE GOVT ECONOMISTS ARE  
CONFIDENT THERE MEASURES WILL ASSURE THE OFFICIAL FORECAST  
IS MET, PRIVATE FORECASTERS EMPHASIZE THE DECELERATION OF  
INFLATION HAS LEFT PROPERTY VALUES OUT OF LINE WITH FUTURE  
INCOME PROSPECTS SO THAT SOME ADJUSTMENT IN REAL ESTATE  
PRICES MAY BE REQUIRED BEFORE A STRONG EXPANSION OF HOUSING  
INVESTMENT GET UNDER WAY. OUR ESTIMATE OF HOUSING INVEST-  
MENT IS BASED ON A REBOUND FROM THE SLOWED TREND THROUGH MUCH OF  
1977, ALTHOUGH WE DO NOT EXPECT THAT THE GOVT'S NEW STIMULUS  
MEASURES WILL BE FULLY EFFECTIVE WITHIN CY 1978.

16. BASED ON THE EXPECTED 5 PERCENT INCREASE IN INDUSTRIAL  
PRODUCTION AND A BETTER BALANCE OF INVENTORIES AFTER SPRING,  
STOCKBUILDING IS EXPECTED TO BE UP SUBSTANTIALLY IN 1978.  
ALTHOUGH OUR ESTIMATE IS UP CONSIDERABLY FROM CY 1977 IT  
WOULD NOT BE LARGE BY HISTORICAL STANDARDS AND WILL BE  
REQUIRED TO MAINTAIN INVENTORY/SHIPMENTS RATIOS IN AN  
EXPANDING ECONOMY.

THE BALANCE OF PAYMENTS:

17. MANY SIGNS INDICATE THE SWELLING JAPANESE CURRENT ACCOUNT  
SURPLUS HAS CRESTED AND WILL BEGIN TO RECEDE IN COMING

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R 190530Z JAN 78  
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MONTHS. TIMING AND MAGNITUDE OF THE REDUCTION, HOWEVER, REMAIN IN DOUBT. OUR ESTIMATE OF AN \$8 BIL SURPLUS FOR CY 1978 IS PREDICATED ON A GRADUALLY RISING RATE OF INDUSTRIAL ACTIVITY IN JAPAN AND AN END-OF-INVENTORY ADJUSTMENT BY MID-YEAR. WE ALSO EXPECT THAT THE CUMULATIVE EFFECT OF YEN APPRECIATION WILL BEGIN TO HAVE A MORE DISCERNIBLE EFFECT ON EXPORT VOLUME IN THE SECOND HALF OF CY 1978. THE COMBINATION OF YEN APPRECIATION AND JAPAN'S RECENT COMMITMENT TO OPENING UP ITS MARKET TO IMPORTS WILL HAVE SOME IMPACT ON IMPORT VOLUME BUT THEIR SIGNIFICANCE IS LIKELY TO BE QUANTITATIVELY SMALL SINCE, AT LEAST THROUGH CY 1978, THE BULK OF JAPAN'S IMPORTS WILL CONTINUE TO BE RAW MATERIALS WHICH HAVE RELATIVELY LOW PRICE ELASTICITIES OF DEMAND.

18. DIFFICULT-TO-PREDICAT (AND DIFFICULT TO MEASURE) PRICE MOVEMENTS COULD HAVE A SUBSTANTIAL IMPACT ON THE EVOLUTION  
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OF THE CURRENT ACCOUNT BALANCE IN CY 1978. THE VARIOUS MEASURES OF JAPAN'S TERMS OF TRADE (UNIT VALUES, IMPORT/EXPORT PRICES, YEN OR DOLLAR BASED, S.A./N.S.A.) GIVE A SOMEWHAT AMBIGUOUS PICTURE OF DEVELOPMENTS THROUGH THE FIRST THREE QUARTERS OF CY 1977. HOWEVER, ALL INDICATE THAT IN THE LAST FEW MONTHS OF THE YEAR EXPORT PRICES HAVE RISEN SIGNIFICANTLY RELATIVE TO IMPORT PRICES, AS MIGHT BE EXPECTED FOLLOWING A CURRENCY APPRECIATION. FOR 1978, IT SEEMS LIKELY THAT THE DOLLAR PRICE OF JAPAN'S IMPORTS WILL CONTINUE TO BE DOMINATED BY WORLD PRICE MOVEMENTS FOR THE RAW MATERIALS JAPAN IMPORTS. WITH OIL PRICES STABLE THROUGH AT LEAST MID-YEAR AND NO EVIDENCE OF A QUICKENED PACE OF WORLDWIDE ECONOMIC ACTIVITY, WE ASSUME THE AVERAGE DOLLAR PRICE OF JAPAN'S IMPORTS WILL BE FARILY STABLE OVER 1978.

19. PROSPECTIVE EXPORT PRICE MOVEMENTS ARE LESS EASY TO FORESEE. FOR 1977 THE YEN-BASED MEASURE OF JAPANESE EXPORT UNIT VALUES (S.A.) SHOWS A STEADY DECLINE WITH PRICES IN THE LAST QUARTER BEING ABOUT 7 PERCENT BELOW FIRST QUARTER LEVELS. COMPARABLE S.A. MEASURES OF DOLLAR UNIT VALUES ARE NOT AVAILABLE BUT AN ALTERNATE MEASURE OF UNIT VALUES SHOWS THAT IN SEPTEMBER DOLLAR EXPORT PRICES WERE 9.0 PERCENT ABOVE YEAR-EARLIER FIGURES. VERY ROUGH CALCULATIONS WOULD SUGGEST THAT SOMEWHAT MORE THAN HALF THE EFFECT OF YEN APPRECIATION HAS BEEN PASSED ALONG IN PRICE INCREASES AND THE BALANCE ABSORBED IN LOWER YEN PROCEEDS. BASED ON VERY CASUAL EVIDENCE, FURTHER ATTEMPTS TO BOOST THE DOLLAR PRICE OF EXPORTS CAN BE EXPECTED IN COMING MONTHS. TIGHT COST CONTROLS AND CONTINUED PRODUCTIVITY GAINS IN SOME INDUSTRIES HAVE APPARENTLY NOT



BEEN ENOUGH TO AVOID A GENERALIZED PROFIT SQUEEZE IN MOST OF THE EXPORT INDUSTRIES. SOME INDUSTRIES SUCH AS CAMERAS, CONSUMER ELECTRONICS, AND AUTOS MAY HAVE ENOUGH MARKET POWER TO MAKE FURTHER PRICE HIKES STICK. ON THE OTHER HAND, A  
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NUMBER OF OTHER INDUSTRIES FACE HIGHLY COMPETITIVE WORLD MARKETS. FOR SOME FIRMS IN THESE INDUSTRIES, THE INABILITY TO BOOST PRICES OR TO CONTINUE TO RUN LOSSES PRESUMABLY WILL SPELL SHIFTS INTO OTHER LINES OF PRODUCTION OR EVEN BANKRUPTCY.

20. ON BALANCE IT SEEMS LIKELY THAT JAPAN'S DOLLAR TERMS OF TRADE WILL CONTINUE TO DRIFT UPWARD IN COMING MONTHS, BUT WITH THE RISING EXPORT PRICES GRADUALLY TAKING A HEAVIER TOLL ON EXPORT VOLUME. CONSEQUENTLY, A DISTINCT TURNING POINT IN JAPAN'S CURRENT ACCOUNT SURPLUS IS NOT LIKELY TO BE EVIDENT FOR SOME MONTHS WHEN A STRONGER IMPORT TREND BASED ON DOMESTIC EXPANSION IS REINFORCED BY A FLATTENING OUT OR ABSOLUTE DECLINE IN DOLLAR EXPORTS.

21. OUT ESTIMATE OF A CY 1978 CURRENT ACCOUNT SURPLUS OF \$8 BIL TRACKS FAIRLY CLOSELY WITH THE OFFICIAL GOJ VIEW THAT THE FY 1978 SURPLUS WILL TOTAL \$6 BIL. OUR CALENDAR YEAR FORECAST INCLUDES THE FIRST QUARTER OF CY 1978 WHICH IS LIKELY TO BE STRONG WHILE THE GOVT'S FISCAL YEAR FORECAST DROPS THE FIRST QUARTER OF CY 1978 AND ADDS THE FIRST QUARTER OF CY 1979 WHEN AN IMPROVING TREND SHOULD BE EVIDENT.

22. DESPITE THE PROJECTED \$3 BIL REDUCTION IN THE CURRENT ACCOUNT SURPLUS, WE EXPECT THAT THE NET EXTERNAL SURPLUS AS MEASURED ON A NATIONAL INCOME ACCOUNTS BASIS WILL DECLINE ONLY SLIGHTLY. MEASURED AT 1970 PRICES ON A NATIONAL INCOME BASIS, EXPORTS ARE NOW 50 PERCENT LARGER THAN IMPORTS; AT 1977 PRICES THE SPREAD IS ONLY 12 PERCENT. THUS, EVEN IF IMPORT VOLUME EXPANDS SIGNIFICANTLY FASTER THAN EXPORT VOLUME, AS WE EXPECT, THE IMPACT ON THE CURRENT ACCOUNT SURPLUS IN BALANCE-OF-PAYMENTS TERMS WILL BE MORE PRONOUNCED THAN THE IMPACT ON THE REAL NET EXTERNAL SURPLUS REPORTED IN THE NATIONAL INCOME ACCOUNTS STATISTICS. IN ANY CASE, THE FORECAST DECLINE IN THE REAL NET EXTERNAL SURPLUS WILL BE A DRAG ON JAPAN'S GROWTH PROSPECTS. ALL OF THE GROWTH WE ARE PROJECTING  
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RESULTS FROM AN EXPANSION OF DOMESTIC DEMAND.  
SHERMAN

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## Message Attributes

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**Channel Indicators:** n/a  
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**Decaption Date:** 01 jan 1960  
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**Review Event:**  
**Review Exemptions:** n/a  
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**TAGS:** EFIN, ECON, JA  
**To:** STATE TRSY  
**Type:** TE  
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**Review Markings:**  
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Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014